United Nations A/66/73/Add.1

General Assembly

Distr.: General
23 September 2011

Original: English

Sixty-sixth session
Agenda item 140
Joint Inspection Unit

The audit function in the United Nations system

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly his comments and those of the United Nations System Chief Executives Board for Coordination on the report of the Joint Inspection Unit entitled "The audit function in the United Nations system" (JIU/REP/2010/5).

11-51236 (E) 290911

Please recycle

Summary

The report of the Joint Inspection Unit entitled "The audit function in the United Nations system" builds on earlier reports relating to accountability and oversight and seeks to enhance coherence among the audit facilities within organizations of the United Nations system.

The present report contains the views of United Nations system organizations on the recommendations provided in the report of the Joint Inspection Unit. The views of the system have been consolidated on the basis of inputs provided by member organizations of the United Nations System Chief Executives Board for Coordination, which welcomed the comprehensive review of the audit function. Agencies generally accepted the recommendations.

I. Introduction

1. The report of the Joint Inspection Unit entitled "The audit function in the United Nations system" builds on earlier reports relating to accountability and oversight and seeks to enhance coherence among the audit facilities within organizations of the United Nations system. The report reviews various aspects of the audit function in organizations, including the performance of the audit bodies, their relationships with each other and with the legislative/governing bodies, and seeks to identify best practices for the audit function.

II. General comments

2. Organizations of the United Nations system welcomed the report of the Joint Inspection Unit and expressed appreciation for the useful analysis it contains. Agencies found that the report contained a thorough analysis of the audit functions of the United Nations system organizations. Agencies generally concurred with its many valuable recommendations, which they noted strengthen this important area of oversight. Several agencies noted that many of the recommendations were already in line with established practice.

3. Agencies observed that the report reiterates a proposal for agencies to consolidate all internal oversight functions (audit, inspection, investigation and evaluation) into one unit, which was the subject of a recommendation from an earlier report on oversight lacunae (A/60/860). Agencies restated the system-wide position expressed in the note by the Secretary-General responding to that report (A/60/860/Add.1), that while such consolidation had worked for some agencies, others indicated that the model continued to lack justification, especially for large/complex organizations.

4. Agencies also commented on the internal audit planning processes section of the report, specifically paragraphs 39 to 42 regarding the role of senior management in the audit planning process and the review of the internal audit plan by governing bodies. While generally accepting the analysis of the Joint Inspection Unit that audit plans should seek input from, but be prepared independently from, senior management, agencies stressed that the annual planning process for the internal audit function should have due regard for the priorities of the executive head and senior management. Agencies noted that senior management input could be accommodated in many ways, including through a specifically identified resource provision for ad hoc management requests, separate from the assignments prioritized by the existing methodology, which is objective and risk-based.

5. Furthermore, agencies noted that in paragraph 45 of the report, the Joint Inspection Unit referred to an Institute of Internal Auditors standard regarding the mechanism for communicating the internal audit plan and resource requirements "to senior management and the board for review and approval". Agencies agreed, as indicated in the response to recommendation 3, but wished to clarify that the definition of "board" in the standard was broad and was intended to cover a wide range of private and public sector organizations. They noted that representatives of the United Nations Internal Audit Services were surveying practices among the United Nations organizations on how the definition was applied, with a view to developing a consensus on what would be the appropriate application, for United

Nations organizations, of the definition in such standards where the term "board" is used.

III. Specific comments on recommendations

Recommendation 1: The internal audit/oversight head should review, at least every three years, the content of the internal audit charter and financial rules and regulations pertaining to internal audit for compliance with the International Standards for the Professional Practice of Internal Auditing and present the results of such a review to the executive head and the oversight/audit committee, and any proposed change should be submitted to the legislative/governing body for approval, in order to enhance the independence, role, status and functional effectiveness of the audit function.

6. Organizations of the United Nations system concurred with recommendation 1, calling for a review of the internal audit charter and the financial rules and regulations that pertain to the internal audit function. Furthermore, agencies suggested that any review of the financial rules and regulations should take place in a harmonized manner among agencies across the United Nations system.

Recommendation 2: The internal audit/oversight heads at the United Nations organizations should confirm the independence of the internal audit function annually to the audit/oversight committee, which should report to the legislative/governing body on any threat to or interference with the independence of the internal audit activity and suggest remedial measures, so as to enhance its effectiveness.

7. Agencies supported recommendation 2 of the report, calling on internal audit/oversight heads to confirm the independence of the internal audit function to the audit/oversight committee.

Recommendation 3: The legislative/governing bodies should direct the executive heads of the United Nations system organizations concerned to facilitate the submission of the internal audit planning and audit results to the audit/oversight committees, where appropriate, for the latter's review.

8. Agencies supported recommendation 3 of the report.

Recommendation 4: The executive heads of United Nations organizations should ensure that audit staff are selected in accordance with staff regulations and rules, based on audit qualifications and experience as the main selection criteria. These staff should be selected independently from management and administrative influence, so as to ensure fairness and transparency, increased effectiveness and independence of the internal audit function.

9. Organizations of the United Nations system generally supported the principles contained in recommendation 4, concerning the selection of staff members of audit departments. However, with regard to ensuring fairness, transparency and effectiveness, as well as adherence to other relevant policies of the organization, agencies suggested that audit recruitment, transfer and promotion actions should be subject to the same controls used to achieve the objectives for all other staff members. Agencies therefore suggested that the focus should be on ensuring the effectiveness of those controls rather than creating special arrangements for certain

categories of staff. The controls should be designed with due regard for selection of auditors and other categories of staff in functions that are independent of the rest of the organization.

Recommendation 5: The internal audit/oversight heads should ensure that recruited staff possess audit or other relevant experience as well as professional certification in audit or accounting at entry level/promotion, in line with best practices.

10. Agencies supported recommendation 5 regarding experience and certification of staff members within the internal audit and oversight bodies. However, agencies suggested that other certifications, besides accounting, should also be relevant. They noted that while professional audit certifications such as Certified Internal Auditor or Certified Information System Auditor would be a distinct advantage in recruitments and promotions, they should not be a prerequisite, and the internal audit/oversight head should encourage all audit staff members who had not already done so to obtain one or more such certifications. Furthermore, agencies noted that best practices in the internal audit profession also stated that internal audit functions should also utilize in-house skills that are not necessarily audit/accountancy-based.

Recommendation 6: The audit/oversight committees should, as appropriate, review the risk-based needs and planning process of the internal audit and provide guidance on how to improve it.

11. Agencies agreed with recommendation 6, suggesting that audit/oversight committees should review and guide improvements to the internal audit planning process.

Recommendation 7: To enhance efficiency, the legislative/governing bodies at the organizations concerned should direct executive heads to review audit staffing and the budget prepared by the internal audit/oversight head, taking into consideration the views of the audit/oversight committees, where appropriate, and should suggest to the executive heads an appropriate course of action, to ensure that the audit function is adequately resourced to implement the audit plan.

12. Organizations of the United Nations system supported recommendation 7, calling on legislative/governing bodies to direct executive heads to ensure that the audit function is adequately resourced to implement the audit plan.

Recommendation 8: To enhance accountability and transparency, the legislative/governing bodies concerned should require the internal audit/oversight head to submit to them, annually in writing, his or her report on the results of the audit activity and to publish such annual reports on the organizations' websites. The annual reports should refer to the implementation of the audit plan, major risks, the audit ranking of the audited entities, governance and control issues, key findings, recommendations and implementation of prior outstanding recommendations, as well as to any independence, resources or other issues that impact negatively on the effectiveness of the audit activity.

13. Agencies supported recommendation 8 of the Joint Inspection Unit report.

Recommendation 9: Senior management and internal audit/oversight heads should, as appropriate, improve their systems to follow up the implementation of audit recommendations in line with best practices including electronic

tracking, monitoring, reporting to executive heads or a management committee at least biannually and to governing/legislative bodies annually, and disclosure of non-implemented high-risk audit recommendations. For the same reason, senior management should ensure timely provision of information on the status of implementation of recommendations to the internal audit/oversight heads. Necessary resources should be allocated to strengthen/establish the system or approval should be sought from legislative/governing bodies to that end.

14. Agencies agreed with recommendation 9, and several organizations indicated that they had experienced improvements in follow-up to audit recommendations after implementing computer-based systems for that purpose.

Recommendation 10: To ensure transparency and accountability, the legislative/governing bodies at the United Nations system organizations concerned should ensure that internal audit is subject to independent external quality assessment or self-assessment with external independent validation in line with the Institute of Internal Auditors (IIA) standards every five years and should ascertain that corrective action is taken to bring the internal audit activity into general conformity with IIA standards.

15. Agencies of the United Nations system supported recommendation 10, calling for independent quality assessments of internal audit functions.

Recommendation 11: The legislative bodies should request the independent audit/oversight committees at United Nations system organizations to review the performance and mandate/audit engagement of external auditors at least every five years, in consultation with the executive heads, and to submit the outcome of such review to the legislative/governing bodies as part of their annual report.

16. Organizations of the United Nations system did not comment on the content of recommendation 11, instead noting that the terms of any review of the performance of external audit bodies, which is the subject of the recommendation, was wholly within the purview of the governing bodies.

Recommendation 12: The legislative bodies of the United Nations system organizations should, after consulting the independent audit/oversight committee, select an external auditor among competitive and interested supreme audit institutions for a term of four to six years, not immediately renewable. Candidacies should be screened by a subsidiary committee of the legislative/governing body against established criteria/requirements including rotation and geographical representation.

17. Agencies noted that the subject of recommendation 12, regarding the terms of external audit bodies, was wholly under the purview of legislative/governing bodies. However, several agencies indicated that the practices suggested in the recommendation were already largely in place.

Recommendation 13: To enhance accountability and transparency, the legislative/governing bodies should require that the financial statements be finalized no later than three months after the end of the financial period to enable the external auditor to submit his/her report, first to the audit/oversight committee and then, no later than six months after the end of the financial

period to the legislative/governing body, and to have it published on the website of the organization.

18. Agencies of the United Nations system agreed with the timetable for producing financial statements proposed in recommendation 13, with many indicating that this practice was already in place.

Recommendation 14: The legislative/governing bodies in the United Nations system organizations direct the executive heads at each organization to inform them of all third-party audit/verification requests, after consulting the audit/oversight committees and the external auditors.

19. Agencies supported the need to inform governing/legislative bodies of all requests for third-party audits, as specified in recommendation 14, citing the United Nations single audit principal. Agencies, however, noted that the donor community might have a different view, and finding such requests difficult to resist, noted that a clear decision on the issue by the General Assembly would help to address the issue.

Recommendation 15: To enhance accountability, controls and compliance, the legislative bodies should revise the mandates of audit/oversight committees to include the review of both internal and external auditors' performance as well as other responsibilities, including governance and risk management.

20. As with earlier recommendations, agencies did not comment on the content of recommendation 15, noting that the mandates of audit/oversight committees fell under the purview of legislative/governing bodies.

Recommendation 16: The legislative bodies should require that the charter of the audit/oversight committees be reviewed regularly, at least every three years, and any change be submitted for the approval of the legislative bodies.

21. Agencies agreed that the charter of audit and oversight bodies should be reviewed on a regular basis. In some organizations those bodies are established by the executive head, who therefore assumes responsibility for any review of the mandates and charters of the audit/oversight bodies.

Recommendation 17: The legislative/governing bodies should elect/appoint the audit/oversight committee members, the number of whom should vary between five and seven members with due regard to professional competency, geographical distribution and gender balance so as to represent the governing bodies' collective interests. The candidates should be screened by a committee, unless the audit/oversight committee is a subcommittee of the legislative/governing bodies, to ensure compliance with the said requirements, including independence before their appointment.

22. Agencies responded to recommendation 17 by suggesting that the proposed arrangement might needlessly complicate the process. Agencies reported success using a system whereby the executive head appoints members of the committees, with the approval of the governing bodies, thereby creating a team of external experts with complementary professional experience and expertise across geographical regions. Furthermore, agencies noted that while the recommendation encouraged that oversight committee members be appointed by the governing bodies, they stressed that oversight committees were not political bodies and should therefore consist of oversight experts who are external to and independent of the organization.

Recommendation 18: To ensure transparency and disseminate best practices, the chair of the audit/oversight committee should submit at least one annual report directly to legislative/governing bodies with separate comments by executive heads, if any, which should be published on the website of the organization, in line with best practices.

23. Agencies agreed that the chair of audit and oversight committees should submit at least one annual report directly to the legislative/governing bodies, along with the other terms contained in recommendation 18.